I-88-1A
I-88-1D

Ontario

Ontario Automobile Insurance Board

Industry-Wide Hearing

Low Risk Driver
Class of Risk Exposure

DECISION WITH REASONS

I-88-1A
I-88-1D
(re-opened)

IN THE MATTER OF the Ontario Automobile Insurance Board Act, 1988, S.O. 1988, c.18;

AND IN THE MATTER OF an industry-wide hearing by the Ontario Automobile Insurance Board pursuant to section 20 of the said Act.

AND IN THE MATTER OF a hearing by the Ontario Automobile Insurance Board pursuant to subsection 14(2) of the said Act to reconsider the Decision and Orders made by it under File Nos. I-88-1A and I-88-1D.

BEFORE: M. Patricia Richardson
Vice Chair and Presiding Member

John P. Kruger
Chairman

R. Alvin Field
Member

Frank Marchington
Member

March 10, 1989

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1. INTRODUCTION

1.1 The Ontario Automobile Insurance Board (the Board) reconvened the hearings under File Nos. I-88-1A and I-88-1D (Hearing Nos. 1 and 4 of the Industry-Wide Hearing) pursuant to section 14(2) of the Ontario Automobile Insurance Board Act, 1988, S.O. 1988, c.18 (the Act) by a Notice of Hearing dated February 27, 1989. The Notice was served on the parties in Hearing Nos. 1 and 4, all limited intervenors in Hearing No. 4, all insurers, and the Ontario Superintendent of Insurance.

1.2 The decisions in Hearing No. 1, File No. I-88-1A (Decision with Reasons dated August 30, 1988 and Supplemental Decision with Reasons dated November 2, 1988) and the Partial Decision with Reasons I-88-1D dated January 20, 1989 (from Hearing No. 4) established the classes of risk exposure to be considered in determining premiums for coverages for different categories of automobile insurance and the procedures to be followed in assigning insureds and vehicles to any such class of risk exposure, pursuant to section 19(1) (as amended by section 19(2)), and section 20(1a) of the Act (the Classification Plan). The Board, pursuant to

section 29(1a) of the Act, by Order dated January 20, 1989 and issued February 1, 1989, made a regulation prescribing classes of risk exposure for the category of automobile insurance Personal Vehicles (the Classification Plan Regulation). This regulation was published in The Ontario Gazette on February 11, 1989.

1.3 The decision in Hearing No. 4, File No. I-88-1D, (Decision with Reasons dated February 10, 1989) set rates and ranges of rates for the classes of risk exposure for the category Personal Vehicles - Private Passenger Automobiles. The Board made a Rate Order implementing Decision I-88-1D dated and issued February 13, 1989.

1.4 The Board, in its opinion, considered it advisable to reconsider the Decisions and Orders made in Hearing Nos. 1 and 4 of the Industry-Wide Hearing to consider the inclusion in the Classification Plan of a new class of risk exposure, "Low Risk Drivers", for the category of automobile insurance, Personal Vehicles - Private Passenger Automobiles, and if accepted, to set a rate or range of rates for such class.

1.5 The Board, through its General Manager, by letter dated February 23, 1989 requested William M. Mercer Limited

(Mercer) to prepare such a class of risk exposure, to propose a rate factor, and to amend the rating algorithm to include the rate factor. The Mercer response was attached to the Notice of Hearing (Appendix "A" to Exhibit 2.1).

1.6 The Board sat on Monday, March 6, 1989 (9:00 a.m. to 7:25 p.m.) and on Tuesday, March 7, 1989 (11:36 a.m. to 2:05 p.m.) to consider this matter.

1.7 The Board was assisted by the participation of the persons who attended the hearing and by those individuals who took the time to write letters to the Board expressing their concerns. The Board considered all evidence in making its decision. See Appendix A to this Decision for a list of persons (parties and limited intervenors) who participated in this hearing.

1.8 The Orders amending the Classification Plan Regulation and the Rate Order will be issued shortly.

2. JURISDICTION

2.1 It is essential for all persons to realize that the Board is restricted in relation to what it may do, or not do, by the provisions of its governing legislation (the Ontario Automobile Insurance Board Act, 1988).

2.2 In this regard, the Board's powers are expressly limited by section 33(1) of the Act:

> **33.-(1) No insurer shall differentiate or make a distinction, exclusion or preference in a contract of automobile insurance on the basis of age, sex, marital status, family status or handicap.**

2.3 The Board cannot create a class of risk exposure which will distinguish, exclude or prefer on the basis of age.

2.4 Therefore, in responding to all the persons who took the time to make an oral presentation to the Board or to write a letter of comment supporting a "senior's discount", the Board notes that it has no authority to create such a discount, notwithstanding that such a discount may be actuarially justified or legally available in other areas. A class of risk exposure, based on age, would be in breach of section 33(1) and outside the Board's jurisdiction to order.

3. THE LOW RISK CLASS OF RISK EXPOSURE

BOARD DECISION

3.1 The Board finds that a new class of risk exposure is appropriate for inclusion in the category of automobile insurance Personal Vehicles - Private Passenger Automobiles.

3.2 The class is defined to include:

- Low Risk - This class applies to vehicles possessing all of the following characteristics:

(1) The drivers of the vehicle have over six years of driving experience;

(2) The vehicle is driven less than 12,000 kilometres annually;

(3) The vehicle claim history is that there are no chargeable claims in the past six years and the conviction history is that there are no chargeable convictions in the past six years;

(4) There are no more than two drivers in the household;

(5) The vehicle is used for pleasure use only; and

(6) The coverage limit for third party liability is at least $500,000.

- Other Risk - This class applies to all other vehicles not qualifying for the Low Risk Class.

3.3 The Board also has determined that a declaration to qualify for this Low Risk Class is not necessary.

3.4 All current Board definitions will be applicable to the Low Risk Class; specifically, the definitions of pleasure use, chargeable vehicle claim, and chargeable conviction remain the same as those contained in the Classification Plan Regulation.

3.5 The rate differentials associated with these two new classes of risk exposure are:

Low Risk Class:	.90
Other Risk Class:	1.00

These factors are applicable separately to third party liability, accident benefits, and collision coverages. The revised rating algorithm for private passenger automobile is attached as Appendix B to this Decision.

<u>REASONS</u>

3.6 The Board finds that the characteristics outlined in the Mercer proposal (Schedule "A" to Exhibit 2.1) capture the elements associated with the truly low risk vehicle/driver combinations. It accepts the major

aspects of the Mercer proposal, subject to the modifications inherent in the Board's decision, summarized above.

3.7 It is the combination of these elements that contributes to the effective synergy of operation of this risk classification. It is not each single element of this class considered separately that contributes to the risk having a lower than average expected pure premium. The Mercer proposal states (at 2):

> Several of these underlying risk factors are difficult, if not impossible, to use as classification and rating variables because they could be considered to be not objective, quantifiable, enforceable, etc. Thus, it was necessary to attempt to combine these in such a manner that risks, which are so compellingly better than average, could be grouped in a separate class of risk exposure with an associated rate factor reflective of this difference.

3.8 Because of the need for the <u>combination</u> of risk elements, the Board finds that the "menu" aspect of the Mercer proposal, where the risk need satisfy only some of a list of characteristics, may detract from the effective operation of this class of risk exposure. During cross-examination, Mr. Khury, the Mercer witness, stated (Transcript, at 214):

> In my experience, I have found that there are certain risk combinations and certain cell combinations when an individual drives relatively few miles and meets certain other criteria. ... Individually, these things are measurable, but when you put them all together, you get a more powerful discount than any of the individual characteristics would produce.

In addition, the menu aspect may be confusing to the insurance buying public.

3.9 The Board finds that <u>all</u> six characteristics of the Low Risk Class will be mandatory, and that there will be no exceptions. The six elements of the Low Risk Class are discussed below.

<u>The drivers of the vehicle have over six years of driving experience</u>.

3.10 In his direct testimony, Mr. Khury stated (Transcript, at 45):

> ... if you think of a very low risk driver, you think of an experienced driver, you think of a driver that doesn't have tickets and accidents, so it's sort of like a threshold statement.

3.11 The overall importance of driving experience is evidenced by the fact that the Mercer proposal suggested that this be one of the two mandatory characteristics, rather than part of its suggested additional menu of other characteristics.

3.12 The evidence of Allstate also emphasized the importance of driving experience for a low risk driver class and it, too, suggested that this be a mandatory characteristic (Exhibit 6.2, at 1). Allstate's proposal, however, included a requirement of more than ten years of driving experience, rather than six. In support of this recommendation it offered adjusted data based on claim frequencies for new business only. There was support from other participants, although no evidence, for an experience period greater than six years.

3.13 The Board finds that this evidence in support of a ten year experience criterion is inconclusive since: (1) it reflects only the frequency component and not the severity component of the pure premium; and (2) the experience base is limited and may be skewed since it comprises new business only, when the majority of the experience of Allstate is likely to be the renewal book.

3.14 Thus, with respect to the Low Risk Class, the Board affirms its original finding in Decision I-88-1A that six years is the maximum number of years of driving experience, applicable to the "Low Risk Class" as well as to the "Other Risk Class".

The vehicle is driven less than 12,000 kilometres annually.

3.15 The Board finds that the concept of limited annual distance, as proposed by Mercer, contributes significantly to the definition of low risk. During oral testimony in support of the Mercer proposal that annual distance be limited to 8,000 kilometres, Mr. Khury stated (Transcript, at 45-46):

> Annual distance driven is not more than 8,000 kilometres. Once again here, this is the underwriting syndrome of the better half of the risk. All risks that drive less than 16,000 kilometres, which is a current subdivision, they're not all the same. There are people who drive 14-, 10-, 8-, 5,000 kilometres, and everything in between.
>
> It is generally recognized in my experience, at least through statistics I have looked at, that there is a break. That entire group of 16,000 kilometres or less is not a monolith. Maybe at 10,000 kilometres, at 12,000 kilometres, or what have you, you could have a break. One additional break makes sense.

3.16 The Board heard evidence that the annual driving distance should not be so low as to serve as a disincentive to volunteers to use their automobiles in the course of charitable work. Mrs. Rose, from the Volunteer Centre of Metropolitan Toronto, indicated that, for example, a Meals on Wheels volunteer could drive up to 30 to 40 kilometres to make one meal delivery, once a week (Transcript, at page 19). It was also suggested that the distance factor should take into

account the need for rural drivers to drive longer distances.

3.17 The Board also heard evidence from other participants recommending an annual driving distance of at least 12,000 kilometres.

3.18 The Board finds that the low risk profile will be served, while not affecting significantly the insurance costs to volunteers, if the annual driving distance is set at 12,000 kilometres.

<u>The vehicle claim history is that there are no chargeable claims in the past six years and the conviction history is that there are no chargeable convictions in the past six years.</u>

3.19 The importance of the absence of chargeable vehicle claims and convictions was suggested in the Mercer proposal, which again recommended that this be one of the two mandatory requirements. Mercer also recommended that the forgiveness features of these two items not apply to the Low Risk Class.

3.20 For purposes of avoiding confusion among insureds, the Board will use the definitions as set out in the Classification Plan Regulation. The Board is of the opinion that the presence of chargeable claims and/or

minor convictions to the extent permitted under these definitions does not detract from the Low Risk Class established by the Board.

<u>There are no more than two drivers in the household.</u>

3.21 Both the Mercer evidence and the Allstate evidence supported the use of this criterion for defining low risk. This element was also generally supported by other participants. In his direct oral evidence, Mr. Khury stated that the more drivers there are in the household, the more likely the vehicle is to be driven more frequently. Thus, the low risk profile indicates fewer drivers than average.

<u>The vehicle is used for pleasure use only.</u>

3.22 The Mercer recommendation was that the vehicle be classified as pleasure use as an element of low risk. This was widely supported by the participants. There were submissions on the need to re-define pleasure use to mean "pure" pleasure (i.e., zero business and zero commute). The Board finds that the imposition of a pleasure use requirement is consistent with the remainder of the classification plan vehicles use categories, since pleasure use is the lowest rated group

(with the minor exception of farm use, applicable to only a small portion of drivers). The Board does not find it necessary to amend the definition for purposes of this Low Risk Class.

<u>The coverage limit for third party liability is at least $500,000.</u>

3.23 The Board finds that there is merit to the Mercer recommendation to recognize a minimum $500,000 coverage limit for third party liability. Those who demonstrate fiscal responsibility by purchasing increased coverage for third party liability are likely to be those who exhibit responsibility when operating a motor vehicle. This increased coverage limit was supported by the Ontario Coalition of Senior Citizens Organizations. In addition, the Board notes that the vast majority of insureds purchase limits of $500,000 or more.

3.24 The Board has rejected certain criteria for the low risk profile presented in evidence. Specifically, the Board has chosen <u>not</u> to include the following items in the Low Risk Class:

- o The vehicle is not operated after dark for more than 15% of the total vehicle use.
- o The vehicle is not operated on highways with four lanes or more for more than 15% of the total vehicle use.

- The insured purchases a full package of coverages.
- The vehicle rate group is less than 40.
- The principal operator must not earn and does not intend to earn employment income in the future.

3.25 With respect to night driving and driving on four lane highways, the Board finds that these would be unenforceable and not easily measured by the insured or his/her agent.

3.26 The Board finds that the requirement to purchase a full package of coverages in order to qualify for the discount may impact adversely those who drive older cars and do not insure them for collision. This element is not directly related to driving profile.

3.27 The type of car one operates is not, in the Board's opinion, indicative of a low risk profile. The Board rejects the vehicle rate group as a Low Risk Class element.

3.28 With respect to the criterion relating to employment, introduced by Allstate, Counsel for the Industry Coalition submitted in argument (at 464) that this is an important low-risk criterion. The Board is not convinced that this criterion is directly related to the low risk operation of an automobile.

4. THE MULTI-CAR DISCOUNT RULE

4.1 Counsel for the Industry Coalition called a panel of witnesses from Allstate. In addition to testifying on the proposal for a low risk class of risk exposure, the Allstate witnesses filed material and testified on the Multi-Car Discount Rule which had been adopted by the Board in its Supplemental Decision I-88-1A, and as set out in the Classification Plan Regulation.

4.2 The Rule currently reads as follows:

> <u>The Multi-Car Discount Rule</u>
>
> The number of vehicles class of risk exposure applies separately within the private passenger automobile and the motorcycle categories of automobile insurance, to the Third Party Liability and Collision coverage (including the Collision portion of the All Perils coverage) provided to two or more vehicles that:
>
> (i) are not part of a fleet;
> (ii) are under common ownership; and
> (iii) are insured by the same insurer.
>
> For purposes of this rule, long-term leased vehicles as [sic] treated as owned vehicles.

4.3 Mr. Kelaher of Allstate testified that the limitation of the rule to common ownership would disqualify a large number of people currently enjoying such a discount. For instance, a two-car family, where the cars are

registered in different names, would not qualify. Allstate, in Exhibit B to Exhibit 6.1, recommended a definition that would extend the rule to vehicles registered to a common household, limited to a family situation (Transcript, at 310-17).

4.4 Counsel for State Farm submitted that the Allstate proposal would not include insurers that use one policy per car, as compared to one policy for any number of cars. An alternative proposal was received by the Board from State Farm on March 8, 1988 under cover of a letter from the Deputy Regional Vice President.

BOARD DECISION

4.5 The Board has been persuaded that the rule, as it now reads, is too limiting and should be relaxed to allow persons residing in the same household to qualify.

4.6 The Board notes Board Counsel's comments in his argument (Transcript, at 454) that the definition proposed by Allstate may bring it too close to section 33 prohibitions against discriminating on the basis of family status and marital status.

4.7 The Board will amend the Rule by changing item (ii) to read as follows:

> (ii) are owned by persons residing in the same household;

DATED at North York this 10th day of March, 1989.

M. P. Richardson
Vice Chair and
Presiding Member

J. P. Kruger
Chairman

R. Alvin Field
Member

Frank Marchington
Member

APPENDIX A

List of the Parties who appeared

List of Limited Intervenors

List of Witnesses

PARTY	REPRESENTATIVE	WITNESS
Insurance Brokers Association of Ontario	D.Dorsch	
Consumers Association of Canada (Ontario)	C. Baggaley	
Cycle Canada Magazine	J. Cooper	
Pafco Insurance Company Limited	E. F. Belton Vice Chairman & Chief Executive Officer	
The Dominion of Canada Group	J. Christie Vice President & Chief Actuary	
Kingsway General Insurance Company	R. Wingfield	
Allstate Insurance Company	T. Kelaher President F. Boulanger Assistant Vice President	
Insurance Bureau of Canada The Association of Canadian Insurers The Ontario Mutual Insurance Assoc. Insurers' Advisory Organization Inc. Facility Association Certain independent non-aligned insurers	N. Finkelstein	T. Kelaher President, Allstate F. Boulanger Assistant Vice President
Safeco Insurance Companies	A. Hanks Regional Manager Personal Lines Canada	
Laurentian Casualty Company of Canada	A. Beacock Underwriting - Head Office	

PARTY	REPRESENTATIVE	WITNESS
Progressive Casualty Insurance Company	A. Rogacki Chief Agent	
Association of Canadian Insurers	R. Bethell President	
N.D.P. Caucus	M. Bryden, M.P.P	
State Farm Insurance Company	H. Brown	
United Senior Citizens of Ontario	A. Mansfield President J. Atto J. King Past President	A. Mansfield J. Atto
Meals on Wheels of Ontario, Inc.	B. Gleberzon	B. Gleberzon
Ontario Coalition of Senior Citizens' Organizations	C. De Leeuw M. Frank	M. Frank
Ontario Advisory Council on Senior Citizens	I. St. Lawrence	I. St. Lawrence
Reg Stevens		
John Carson		J. Carson

BOARD COUNSEL	WITNESS
J. Campion C. Cottle	S. Khury Managing Director, William M. Mercer Limited

LIMITED INTERVENORS - WRITTEN SUBMISSIONS

Frank Bailey
Bernice and Harold Ruch
V.E. Thompson
John P. Carlton
CAA Insurance Company (Ontario)
Edward H. Fisher
Salvatore & Vicenza Noto
Robert Good
Herb & Minnie Thorne
"Your safe truck driver"
Audrey Potts
Anna & Walter Mawson
B. Benardo
Gordon Fowle
May Vause
Warren Mathewson
Harvey S. Clark
Elizabeth Bemorda
Irene Craft
Mrs. H. McGarry
Isabel Felstead
J. Carl Burd
H.W.R. Scherzinger
Ivor H. Nixon
Doug Ecker Sr.
Harold Rowe
Gary Cameron
H. Fields
Volunteer Centre of Metro Toronto
Frank J. Leworthy
Merv de Pendleton
Jerry Kovac
Mike Preston
James Frey
Mary Witte
Richard L. Berghammer
Nevil Horsfall
Sally McKenzie
C.E. Girgulis
Donna Chevrier
Fred Hobson
Leaman Hunking
Cecil Magee
Violet McLean
Delbert Dupre
John D. Robinson
H. Puchala
Olive E. Phinney
W.L. Libby
Fortress Financial Limited

LIMITED INTERVENORS - ORAL PRESENTATIONS

S. McKenzie
C. Newell, Hamilton Automobile Club
B. Stollard, Humewood Senior Citizens Club

Appendix B

Rating Algorithm

RATING ALGORITHM

1. DEFINITIONS

BR(t)	=	Territory base rate
ILF(l)	=	Increased coverage limit factor
CV(u)	=	Classification variable, vehicle use and annual driving distance
CV(e)	=	Classification variable, years licensed - driver experience
CV(a)	=	Classification variable, abstinence
CV(n)	=	Classification variable, number of vehicles
CV(v)	=	Classification variable, vehicle rate group
CV(lr)	=	Classification variable, low risk driver
VC	=	Surcharge, conviction history
AC	=	Surcharge, vehicle claim history
DC(d)	=	Coverage deductible factor
EC	=	Expense constant

2. ALGORITHM

a. **Third Party Liability Premium**, begin with the $200,000 coverage limit territory base rate and calculate:

{[BR(t)*ILF(l)*CV(u)*CV(e)*CV(a)*CV(n)*CV(lr)] + VC + AC}

and add to:

b. **Accident Benefits Premium**, begin with the territory base rate and calculate:

{[BR(t)*CV(u)*CV(e)*CV(a)*CV(lr)] + VC + AC}

and add to:

c. **Collision Premium**, begin with the $250 coverage deductible territory base rate and calculate:

{[BR(t)*CV(u)*CV(e)*CV(a)*CV(n)*CV(lr)*CV(v)] + VC + AC} +

{[BR(t)*CV(u)*CV(e)*CV(a)*CV(n)*CV(lr)*CV(v)] * DC(d)}

where

{[BR(t)*CV(u)*CV(e)*CV(a)*CV(n)*CV(lr)*CV(v)] * DC(d)}

is subject to a dollar maximum, and add to:

d. **Comprehensive Premium**, begin with the $50 coverage deductible territory base rate and calculate:

{[BR(t)*CV(v)]} + {[BR(t)*CV(v)] * DC(d)}

where {[BR(t)*CV(v)] * DC(d)} is subject to a dollar maximum, then add to

e. **Family Protection Premium** (SEF - 44), begin with the $200,000 coverage limit territory base rate and calculate:

{BR(t) * ILF(l)}

and add to:

g. **Expense constant**

EC

3. If all perils coverage is purchased instead of comprehensive and collision, rate the risk the same as for comprehensive and collision separately and add the final premiums.

4. If specified perils coverage is purchased, replace the comprehensive algorithm with:

{[BR(t)*(.45)*CV(v)]} + {[BR(t)*(.45)*CV(v)] * DC(d)}

where {[BR(t)*(.45)*CV(v)] * DC(d)} is subject to a dollar maximum.

5. **Rounding** is to two decimal places after the application of each rating factor. The final premium is rounded to a whole dollar after each coverage premium is calculated.

6. Six month policy premiums are calculated by multiplying the final premiums and the expense constant by .50 for each coverage.